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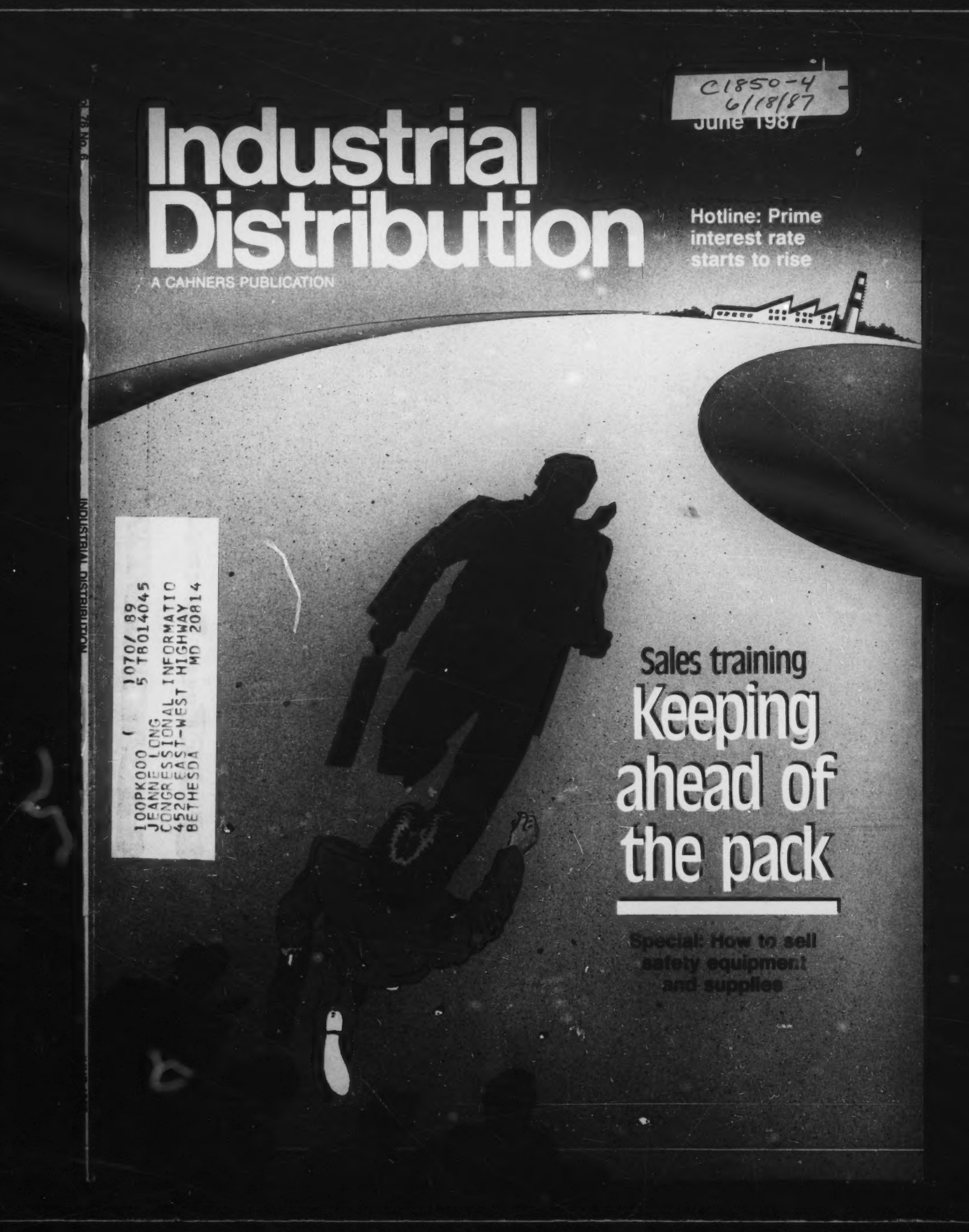
June 1987

Industrial Distribution

A CAHNERS PUBLICATION

Hotline: Prime interest rate starts to rise



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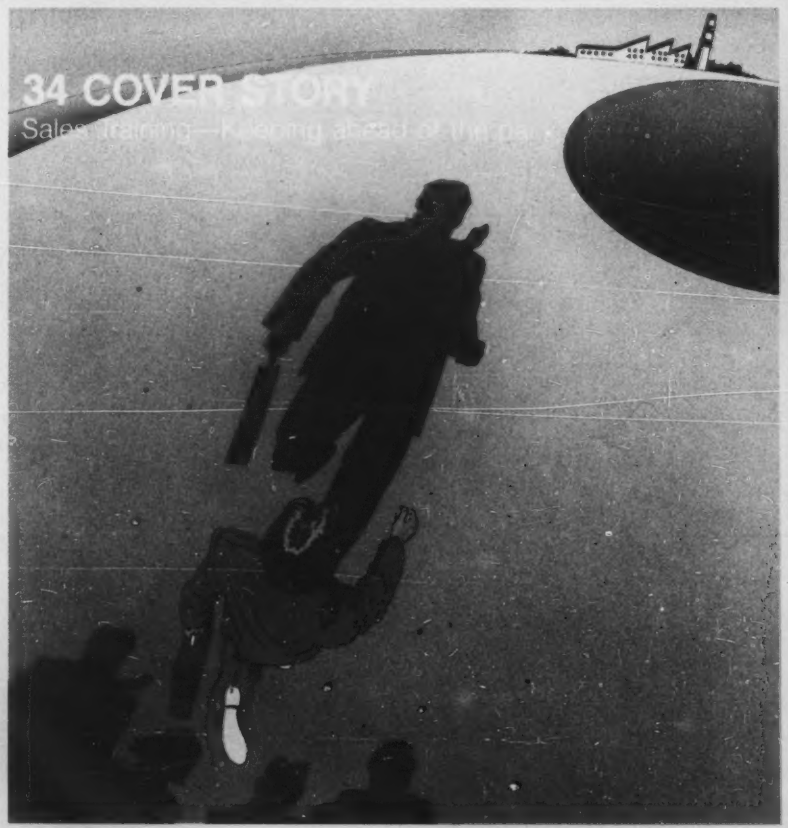

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INDUSTRY NEWS

Tariff has little impact on distributors

WASHINGTON, D.C.—Despite the initial shock, most industry observers said that the 100% tariff imposed April 17 by the Reagan Administration on Japanese industrial-grade portable power tools has had little impact on distributors.

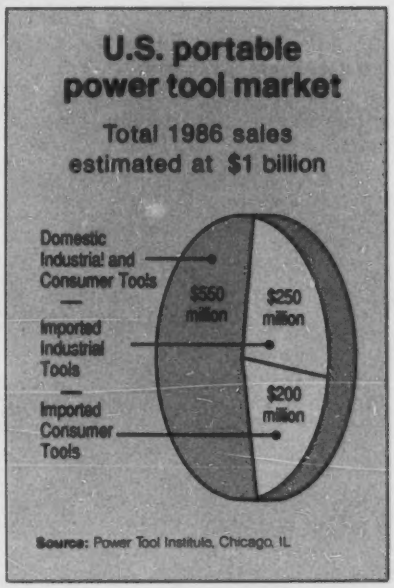
Industry experts, including distributors, association executives and manufacturers, noted that the impact has been marginal for two reasons. First, Japanese manufacturers hold three- to six-month inventories of portable power tools in the U.S. Secondly, the tariff does not cover the more popular Japanese products, including battery tools, hammer drills, angle grinders, and drywall screwdrivers.

The items specified by the tariff included electric drills with chuck capacities of ½ in. or more, rotary and percussion hammers, and specialized polishers and grinders.

At press time, most of those interviewed expected the tariff to last about 90 days. They indicated that the import tax was used primarily to put pressure on the Japanese government the week before President Reagan was scheduled to meet with the Japanese Prime Minister Yasuhiro Nakasone.

The tariff on $30 million of imported Japanese tools was set by the Reagan Administration as part of a package to recover $300 million in annual sales that the Administration believes has been denied U.S. firms because of unfair Japanese trading practices. Along with portable power tools, the tariff sought to recoup $180 million on advanced portable desktop and laptop computers and $90 million on color television sets.

Gary Holmes, a spokesman for the U.S. Trade Representative's Office, said the three industries were selected because of their limited impact on U.S. consumers. He cautioned those in the portable power tools industry to understand that power tools were included solely as a way to single out Hitachi for its alleged dumping of computer chips in the U.S. market, not because of a strong Administration commitment to protect the industry. Hitachi sells portable power tools through Hitachi Power Tools U.S.A., Ltd., based in Norcross, GA.



Matthew Takagi, a spokesman for Hitachi's power tools group, said his company considered the Administration action strictly a retaliatory measure. He said the only item impacting his company was the duty on rotary and percussion hammers, sales of which comprise about 10% of the company's business. Hitachi does not sell a large volume of electric drills and its specialized polishers and grinders are manufactured in Singapore. The company captures about 2% of the U.S. portable power tool market and has four-month inventories in the U.S.

Patrick Griffin, a spokesman for Mikita U.S.A., Inc., said the tariff may lead Mikita to move more products into its manufacturing facility in Buford, GA., earlier than planned. Mikita's original goal was, by 1990, to produce 50% or more of the products it sells in the U.S. at its Buford plant. The power tool manufacturer is one of the leading Japanese importers, capturing about 13% of the U.S. power tool market in 1986.

Manfred Meyer, president of Manfred Meyer and Assoc., a distributor of construction fasteners and related power tools, said although he recognized it would probably not last too long, a prolonged tariff would allow him to increase both his market share and profit margin.

Meyer said his company used to sell Japanese portable power tools, but once Japanese manufacturers flooded the U.S. market, he was no longer able to sell Japanese goods at a profit. Meyer, therefore, kept his American lines and switched to European products. He said that if the tariff lasts more than six months, distributors selling Japanese products would probably be forced to sell American goods.□

Bill helps distributors fight manufacturer terminations

WASHINGTON, D.C.—Legislation primarily aimed at consumers is pending in both houses of Congress, but may eventually have a substantial impact on industrial distributors. The bill centers around resale price-maintenance—or price-fixing—cases and would make it easier for distributors to fight terminations by manufacturers.

The proposed legislation requires that manufacturers prove a distributor was terminated for legitimate business reasons such as volume and location, not because a distributor sold goods below a manufacturer's suggested selling price. Under existing law, distributors must show they were terminated

INDUSTRY NEWS...

Halligan notes that many distributors are reviewing the mix of products that they handle. This seminar, she says, is intended "to familiarize distributors with the latest technology, to help eliminate apprehensions about that technology, and to provide attendees with the vital information they need to make product-mix decisions."

For distributors and their staffs who might need a review of PT basics, seminar leader W.E. "Bill" Pitcher will provide overviews of the "History of Motion Control" and the "Energy Transmission System." Pitcher's expertise evolves out of his 20 years experience in the fluid power industry.

Additional information on the PTDA-sponsored seminar, including specifics concerning registration, is available by calling Linda McChrystal at (312) 825-2000.□

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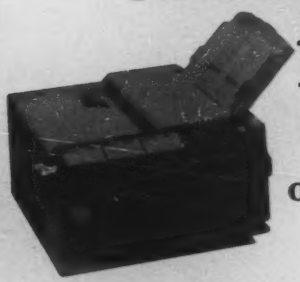

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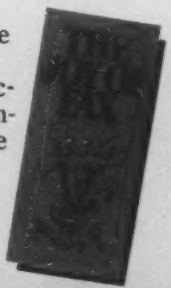

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Indicators . . .

Business was generally strong between February and March. For example, the *NIDA/SIDA Industrial Distribution Index* for the month of March was up 3.7 points from the previous month to 142.4 points. The four reporting geographic areas all sustained increases. The numbers are as follows: the East was up 3.5 to 135.1; the Midwest was up 1.7 to 122.4; the West was up 5.2 to 164.2; and, the South was up 6.9 to 174.2. Overall, the March 1987 total of 142.4 was up 2.2 points from March 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 165.9 for March, up only 0.1% over the previous month and up 2.1 points from March 1986 . . . *SIDA's Monthly Sales Trend Report* for February showed a healthy rebound from the previous month. The 80 locations reporting experienced a 10.6% increase in sales in February 1987 as compared with January 1987 and a 3.0% increase in sales in February 1987 as compared with February 1986. In addition, 50 of the association's locations reported increased sales from February 1987 compared with January 1987 and 35 locations reported increased sales from February 1987 compared to February 1986. The breakdown of the sales performance of the four areas was as follows: Area I (NC, VA, WV) up 21.6 in February 1987 from January 1987 and up 10.7 in February 1987 compared to February 1986; Area II (FL, GA, SC, PR) up 7.0 in February 1987 from January 1987 and down 7.2 in February 1987 compared to February 1986; Area III (AL, KY, MS, TN) up 9.7 in February 1987 from January 1987 and up 9.7 in February 1987 compared to February 1986; and, Area IV (AR, LA, OK, TX) down 7.0 in February 1987 from January 1987 and down 7.2 in February 1987 compared to February 1986.□

BUSINESS REPORT

Oil patch states still troubled

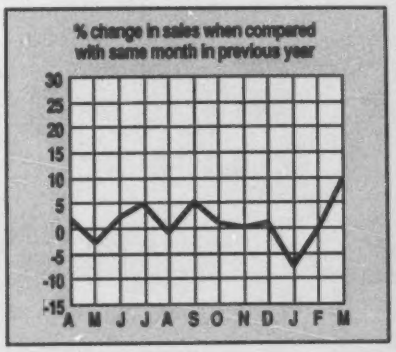
Sales for industrial distributors during the first quarter of 1987 have remained unspectacular. During the first three months of this year, nationwide sales rose by only 1% over the same time last year, although in a monthly comparison of March 1987 and 1986 figures, general line and specialty distributors posted a healthy gain of 10%.

Further signs of possible life can be found in March and February 1987 comparisons, where sales shot-up 15%. According to one industry observer, this unusual activity can be explained, in part, by the natural phenomenon of spring. As light industry prepares to resume work outdoors (such as housing construction), sales of hand tools, power tools and plumbing supplies begin to increase. Specialty distributors in Pennsylvania and Ohio, for example, experienced monthly sales increases of 29% and 25% respectively, and the New York metropolitan area posted a 17% gain.

In that part of the country less affected by the vagaries of nature, the West South Central states, the same old story of a depressed oil business continues to be told. "I wish that I could contradict your figures," says Howard B. Upton, Jr. of the Petroleum Equipment Institute, "but I can't." The figures that dismay him show that in March 1987 to 1986 comparisons, sales declined by 19%, nearly twice the national average.

Upton points to Tulsa, OK, as an example of a city in trouble. During the crude-oil boom of 1983, that city experienced only 2½% unemployment. Today, it has reached 10%. "I'm not sure how long any of this can persist," he says, "but it's going to take the price of oil going back up so that we can continue domestic production." Until that time, there seems little hope in sight for the oil belt to revive itself.

—J. Bonnanzio



RECEIVABLES*

	March '87 vs. March '86			
	Gen.	Spec.	Gen.	Spec.
New England	41	50	47	51
Middle Atlantic	48	43	45	43
South Atlantic	34	34	36	37
East No. Central	35	36	39	42
East So. Central	43	35	41	33
West No. Central	40	—	44	—
West So. Central	28	39	38	40
Mountain	34	40	40	40
Pacific	37	40	35	44
National	38	40	39	41

*Average days outstanding

SALES BY REGIONS (% change)	March '87 vs. February '87			March '87 vs. March '86			First 3 mos. '87 vs. First 3 mos. '86		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
New England: CT, RI, MA, NH, VT, ME	−8	+6	0	+12	+17	+15	+14	+1	+6
Connecticut	—	—	—	—	—	—	—	—	—
Massachusetts	0	—	—	+5	—	—	+4	—	—
Middle Atlantic: NY, NJ, PA	+17	+17	+17	0	+1	+1	−12	−3	−5
New York Metropolitan Area	—	+17	—	—	−1	—	—	−2	—
Upstate New York	—	+6	—	—	+8	—	—	+3	—
Pennsylvania	+20	+29	+23	−1	+4	+1	−10	−13	−11
So. Atlantic: DE, DC, MD, VA, WV, GA, NC, SC, FL	+16	+25	+20	+10	+24	+16	−3	+8	+2
Georgia-Florida	+12	+24	+19	+13	+24	+19	−1	+8	+4
East No. Central: OH, IL, IN, MI, WI	+7	+13	+10	+2	+9	+6	−4	+2	−1
Indiana	+4	−4	+2	+22	+6	+19	+9	+10	+9
Wisconsin	+21	+5	+7	+6	+13	+12	−3	+10	+8
Chicago	—	—	—	—	—	—	—	—	—
Michigan	—	—	—	—	—	—	—	—	—
Ohio	+8	+25	+19	−18	+9	−2	−17	+1	−6
East So. Central: AL, MS, KY, TN	+16	+12	+14	+29	+5	+17	+21	−2	+9
West No. Central: MN, ND, SD, IA, NE, KS, MO	+35	—	—	+25	—	—	+8	—	—
West So. Central: AK, LA, OK, TX	−6	−10	−9	−21	−18	−19	−11	−24	−21
Texas	—	−7	—	—	−15	—	—	−15	—
Mountain: NM, AZ, CO, UT, NV, WY, MT, ID	+3	−8	−1	+11	−23	−4	+13	−21	−3
Pacific: CA, OR, WA	+23	+29	+26	+9	+27	+19	+3	+13	+9
LA-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+26	+31	+28	+6	+29	+17	+1	+13	+7
U.S. TOTALS	+15	+16	+15	+9	+10	+10	+1	+1	+1